

Message Text

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TAGS: ECON, PINT, PO

SUBJECT: MINISTERS DEFEND ECONOMIC PROGRAM

SUMMARY: FINANCE MINISTER AND INTERNAL COMMERCE MINISTER HAVE COMMENTED PUBLICLY ON CURRENT ECONOMIC SITUATION. FINANCE MINISTER SAID LARGE VOLUME OF ANTICIPATED FOREIGN LOANS WILL HELP GOP HOLD DOWN RISING PRICES OF BASIC FOODSTUFFS; BUDGETARY EXPENDITURE IN 1976 WILL RESTIMULATE INVESTMENT; AND GOP WILL GIVE PRIORITY TO UTILIZING NATIONAL PRODUCTIVE CAPACITY, ESPECIALLY IN AGRICULTURE. INTERNAL COMMERCE MINISTER PROMISED STABLE PRICES FOR BASIC GOODS AND CRITICIZED SOME GOVERNMENTAL BUDGET AND TAX POLICIES. STATEMENTS REFLECT ALMOST OVERWHELMING LIMITED OFFICIAL USE

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ECONOMIC PROBLEMS FACING GOP. END SUMMARY.

1. FINANCE MINISTER SALGADA ZENHA, IN TV SPEECH JANUARY 8, EXPLAINED GOVERNMENT'S PRIORITIES AND PROGRAMS. MAIN POINTS:

A. POLITICAL SITUATION: CONSIDERING THAT RICH AND DEMOCRATIC COUNTRY LIKE FRANCE HAD DIFFICULTIES ENDING ITS 8-YEAR COLONIAL WAR IN ALGERIA, IT SHOULD BE NO SURPRISE THAT UNDERDEVELOPED PORTUGAL HAS SIMILAR TROUBLE AFTER ITS 13 YEARS OF COLONIAL WAR. PROBLEMS WERE, MOREOVER, EXACERBATED BY DEMAGOGIC POLICIES OF VASCO GONCALVES AND HIS ADHERENTS. ENEMIES FROM BOTH LEFT AND RIGHT ARE TRYING TO ESTABLISH DICTATORSHIP

B. ECONOMIC RECOVERY: ALTHOUGH ECONOMIC SITUATION STILL DIFFICULT, FIGHT FOR ECONOMIC RECOVERY HAS ALREADY ACHIEVED INCREASED BANK DEPOSITS, EMIGRANT REMITTANCES, PRODUCTION, AND EXPORTS. DESPITE SPECULATION, "THE ESCUDO IS NOT GOING TO BE DEVALUED."

C. FOREIGN LOANS: DUE TO FINANCIAL OPERATIONS, PORTUGAL WILL WITHIN A FEW WEEKS HAVE SOME 20 BILLION ESCUDOS (ABOUT \$730 MILLION AT CURRENT RATE) AT ITS DISPOSAL. THIS AMOUNT INCLUDES 2.5 BILLION ESCUDOS (\$91 MILLION) FROM IMF AND 7.5 BILLION ESCUDOS (\$272 MILLION) FROM WEST GERMANY. NEGOTIATIONS WITH U.S. FOR FOOD CREDITS, AS WELL AS OTHER "SECRET" NEGOTIATIONS, ARE ALSO IN PROGRESS. BESIDES THESE CREDITS, PORTUGAL HAS BEEN PROMISED 5.5 BILLION ESCUDOS (\$200 MILLION) FROM EC AND 2.5 BILLION ESCUDOS (\$91 MILLION) FROM EFTA, AND IS ALREADY USING A 1.5 BILLION ESCUDO (\$55 MILLION) LOAN FROM WEST GERMANY, ALL FOR INVESTMENT PROJECTS. HOWEVER, LOANS MUST BE AND WILL BE REPAYED. PORTUGAL'S RECOVERY AND PROGRESS DEPEND ON "OUR WORK."

D. BUDGET AND TAXES: 1976 BUDGET PROVIDES 30 BILLION ESCUDOS (ABOUT \$1.09 BILLION) FOR PUBLIC WORKS, HOUSING, AND OTHER INVESTMENTS--A 90 PERCENT INCREASE OVER 1975--AND AN UNPRECEDENTED 20 BILLION ESCUDOS (\$730 MILLION) FOR EDUCATION. GOVERNMENT WILL SOON ISSUE "NATIONAL RECONSTRUCTION" BOND ISSUE. ALTHOUGH PORTUGUESE DISLIKE PAYING TAXES, THEY MUST REALIZE THAT TAX INCREASES WILL CONTRIBUTE TO NATIONAL RECONSTRUCTION WHILE LIMITED OFFICIAL USE

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AVOIDING UNHEALTHY FEATURES OF VASCO GONCALVES' PROPOSALS.

E. INFLATION: EXTENDED VACATIONS, COLLECTIVE DISTRESS, AND GOVERNMENT'S PREOCCUPATION WITH ITS OWN "MINI-REFORM" CONTRIBUTED TO SPURT IN FOOD PRICES. GOP, HOWEVER, ALREADY TAKING MEASURES TO CORRECT SITUATION. IT HAS MONEY TO IMPORT NECESSARY FOODSTUFFS, UNDER BETTER TERMS THAN IN PAST, BUT PURCHASES WILL REQUIRE MORE COORDINATION BETWEEN DIFFERENT AGENCIES. PRICE

CONTROL SYSTEM NEEDS EXTENSIVE REVISION AS WELL. IN ADDITION, MANY PRICE INCREASES CAN BE EASILY AVOIDED BY IMPROVED WORK.

F. SUPPLY: ALTHOUGH BIG PROJECTS PLANNED OR UNDERWAY (SINES, ALQUEVA DAM, ETC.) MEAN LONG-TERM DEVELOPMENT, IMMEDIATE PRIORITY WILL BE GIVEN TO UTILIZING EXISTING PRODUCTIVE CAPACITY OF SECTORS SUPPLYING BASIC CONSUMER GOODS--AGRICULTURE, FISHERIES, CLOTHING AND TEXTILES, AND CONSTRUCTION--AS WELL AS TOURISM. LAND REFORM PROGRAM MUST BE DISCIPLINED. CONTRARY TO PORTUGAL'S NEEDS, PRESENT PROGRAM APPEARS TO PENALIZE THOSE FARMERS WHO INVEST. MINIMUM LEVEL OF PRODUCTIVITY SHOULD BE ESTABLISHED FOR EACH PROPERTY, AND THOSE FARMS WHICH DON'T ACHIEVE MINIMUM--WHETHER PRIVATE, COLLECTIVE, OR COOPERATIVE IN NATURE--SHOULD BE PENALIZED.

2. INTERNAL COMMERCE MINISTER MAGALHAES MOTA MADE FOLLOWING SIGNIFICANT POINTS IN INTERVIEW WHICH APPEARED IN JANUARY 9 O SECULO:

A. ADDITIONAL TYPES OF MEAT WILL BE BROUGHT UNDER PRICE CONTROLS. THEIR PRICES WILL NOT BE RAISED FOR AT LEAST SIX MONTHS. PRICES ON SOME OTHER FOODSTUFFS WILL BE LOWERED. PRICE CONTROL SYSTEM NEEDS EXTENSIVE REORGANIZATION.

B. PORTUGUESE COFFEE-DRINKING HABITS MAY HAVE TO CHANGE BECAUSE BOTH COFFEE SUPPLIES AND PRICES ARE VERY INSECURE.

C. GOVERNMENT HAS ASSURED AMPLE SUPPLIES OF FROZEN FISH TO HELP MAINTAIN PRICE CONTROLS.

D. MILITARY SPENDING IS AREA MOST OPEN TO HEAVY CUTS IN ORDER TO REDUCE GOVERNMENT BUDGET DEFICIT. CURRENT LEVEL OF SPENDING IS NOT JUSTIFIED.
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E. HEAVY USE OF SALES TAXES TO RAISE REVENUE IS REGRESSIVE. RECENT INCREASES WHICH WERE NOT CLEARED WITH HIS MINISTRY WILL HAVE TO BE NEGOTIATED WITH FINANCE MINISTRY.

3. COMMENT:

A. VALUES (IN FOREIGN EXCHANGE) OF LOANS REPORTED BY ZENHA DIFFER SOMEWHAT FROM PREVIOUS REPORTS. THESE VARIATIONS MAY RESULT FROM USING DIFFERENT EXCHANGE RATES AND FROM GROUPING LOANS DIFFERENTLY. IN ANY CASE, ONE THING IS CERTAIN. PORTUGUESE FOREIGN RESERVE POSITION IS NOT NEARLY AS SECURE AS THE MINISTER INDICATED. CURRENT RESERVES COULD HARDLY WITHSTAND MASSIVE IMPORTS OF SUBSIDIZED FOODSTUFFS. ZENHA CLEARLY TORN BETWEEN HARSH ECONOMIC REALITIES AND POLITICAL NEED FOR

OPTIMISM.

B. ZENHA IS FIRST GOP OFFICIAL TO COMMENT PUBLICLY ON
LARGE LIQUIDITY LOAN BEING NEGOTIATED WITH GERMANY. IF THIS
CREDIT MATERIALIZES QUICKLY, IT MAY PROVIDE SUFFICIENT LIQUIDITY
TO CARRY PORTUGAL THROUGH FORTHCOMING LEGISLATIVE ELECTIONS.
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